Tenet Healthcare Corp THC (NYSE) | ★★★

Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
24.40 USD	24.00 USD	Extreme	None	Stable	Poor	Healthcare Providers & Services

High Debt Leverage, Coronavirus, and Potential Policy Changes Create Extreme Uncertainty at Tenet

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Morningstar

Important Disclosure

Research as of 10 Jun 2020
Estimates as of 10 Jun 2020
Pricing data through 09 Jun 2020 00:00
Rating updated as of 09 Jun 2020 00:00

Currency amounts expressed with "$" are in U.S. dollars (USD) unless otherwise denoted.

Contents

Business Strategy and Outlook 10 Jun 2020

Since late 2017, Tenet has undergone a massive turnaround effort in the wake of an acquisition strategy that left the company with operating inefficiencies and a debt-heavy balance sheet. Led by initiatives endorsed by its largest shareholder, Glenview Capital Management (19% stake in Tenet as of April 2020), Tenet has replaced its CEO, changed 70% of its board, improved governance practices, pruned its portfolio of assets, and undergone a restructuring effort. Operationally, Tenet has focused on flattening layers of management, improving the firm's operating efficiencies both inside and outside the hospital, and increased focus on service quality. All these factors appear to be positively influencing returns on invested capital at Tenet, which began exceeding WACC in 2017 by our calculations for the first time since The Vanguard Group acquisition in 2013.

However, despite all of these positive recent trends related to those strategic initiatives, external factors and Tenet's inflated debt position are creating a murky outlook for the organization. Specifically, we remain concerned about the firm's refinancing risks, starting in 2022 when a regular stream of debt maturities start coming due. Excluding any inflows from the U.S. government during the coronavirus crisis, we suspect Tenet's free cash flows will likely come up well short of the $775 million to $975 million expected for 2020 before the pandemic. We think the hospital industry, including Tenet, faces many near-term challenges related to volumes, patient mix, and supply and labor costs, among other factors during this crisis. Additionally, with shelter in place orders throughout the U.S., the economy may fall into recession on a sustainable basis, which could negatively influence the insured patient population or payer mix for hospitals. Additionally, we see the potential for U.S. healthcare policy changes, such as a public option, that has the potential to significantly change the payer mix as well, which could cut into the organization's profit potential just as we estimate the COVID-19 crisis may end. In general, we think these external factors create refinancing risk for Tenet.

Vital Statistics

Market Cap (USD Mil)	2,555
52-Week High (USD)	39.36
52-Week Low (USD)	10.00
52-Week Total Return %	16.3
YTD Total Return %	-35.8
Last Fiscal Year End	31 Dec 2019
5-Yr Forward Revenue CAGR %	1.7
5-Yr Forward EPS CAGR %	2.5
Price/Fair Value	1.02

Valuation Summary and Forecasts

Fiscal Year:	2018	2019	2020(E)	2021(E)
Price/Earnings	9.0	14.2	13.9	11.1
EV/EBITDA	6.3	6.9	8.0	7.1
EV/EBIT	9.1	10.1	12.5	10.5
Free Cash Flow Yield %	24.6	14.2	50.7	11.0
Dividend Yield %	15.1	7.2	3.2	7.5

Financial Summary and Forecasts (USD Mil)

Fiscal Year:	2018	2019	2020(E)	2021(E)
Revenue	18,313	18,479	17,536	18,266
Revenue YoY %	-4.5	0.9	-5.1	4.2
EBIT	1,767	1,854	1,377	1,644
EBIT YoY %	15.3	4.9	-25.8	19.4
Net Income, Adjusted	198	281	185	231
Net Income YoY %	-68.4	42.0	-34.3	25.2
Diluted EPS	1.91	2.68	1.75	2.19
Diluted EPS YoY %	-69.4	40.6	-34.8	25.2
Free Cash Flow	1,191	754	2,189	2,304
Free Cash Flow YoY %	-74.4	-36.7	190.3	5.3

Historical/forecast data sources are Morningstar Estimates and may reflect adjustments.

Profile

Tenet Healthcare is a Dallas-based healthcare provider organization operating a collection of hospitals (65) and many outpatient facilities, including ambulatory surgery centers, urgent care centers, freestanding imaging centers, freestanding emergency rooms/micro-hospitals, and physician practices across the United States. Tenet enjoys the number-one ambulatory surgical center position nationwide, too, through its nearly full stake in United Surgical Partners International.

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Morningstar Analysis

Fair Value & Profit Drivers 10 Jun 2020
Our fair value estimate for Tenet remains $24 per share.

Overall during the next five years, we assume Tenet's revenue grows 2% compounded annually. This expectation includes the planned spin-off of Conifer in mid-2021. On its remaining businesses, we assume the firm's traditional business grows about 3%, and although the near-term outlook looks murky, we expect strong growth around 5% compounded annually for Tenet's ambulatory care operations during the next five years, as the firm continues to invest in that segment's growth.

On the bottom line, we assume a significant dip in EBITDA margins in 2020 due to near-term challenges (such as the COVID-19 pandemic and related economic downturn) followed by a recovery starting in 2021 until margins reach 2019 levels in 2022. Including the spin-off of Conifer, adjusted earnings per share only grow around 3% compounded annually in our base-case scenario. We expect that spin-off to result in a $1.5 billion debt for debt exchange that allows Tenet to deleverage to its target.

On a free cash flow basis, we assume free cash flows excluding government grants decline materially through 2021 before rising to nearly $800 million by 2024.

We discount all of our assumptions at an 8% weighted average cost of capital.

Scenario Analysis
Tenet's highly leveraged capital structure creates immense sensitivity when trying to pinpoint equity valuation, which is the primary reason we assign an extreme uncertainty rating to the company.

Our bull case incorporates a mildly stronger outlook than our base-case scenario, valuing Tenet at a much higher $42 per share. Our bull case calls for a 4% consolidated revenue CAGR over the coming five years, about 200 basis points better than in our base case. We assume margins continue to expand, reaching an adjusted EBITDA margin that beats our base case by about 250 basis points, and adjusted EPS grows 10% compounded annually during the next five years. In this scenario, Tenet's free cash flow before any government grants is near management's initial guidance of $775 million to $975 million for 2020 before growing to $1.3 billion by 2024.

Like we have done with our other hospital coverage, we have run a scenario that includes a weak 2020-21 period followed by a high-impact public option scenario that pulls significant patient share away from the more profitable commercially insured patients to Medicare reimbursement rates. In this scenario, Tenet's equity valuation may depend on its ability to obtain external financing, which is not assured in the next few years in that scenario due to the significant debt maturities that start coming due in 2022. In this scenario, we assume Tenet burns through cash mildly before any grant and ongoing profits contract during the next few years, pushing up debt/EBITDA so much that Tenet faces limited refinancing options. In this scenario, Tenet's equity value would be zero.

Economic Moat
We do not see an economic moat around Tenet. While returns on invested capital including goodwill have risen above the cost of capital in the past few years under new management, we see significant uncertainty around the sustainability of those returns related to external challenges and Tenet's own high financial leverage, which could put the company in jeopardy during a liquidity crunch. Specifically, in our bear-case scenario that cuts into profits substantially due to COVID-19 through 2021 and a potential U.S. healthcare policy change in 2022 and beyond, leverage could rise and remain at such high levels that Tenet could default on its major debt maturities as they start coming due in 2022 and beyond. Overall, we see significant risk of

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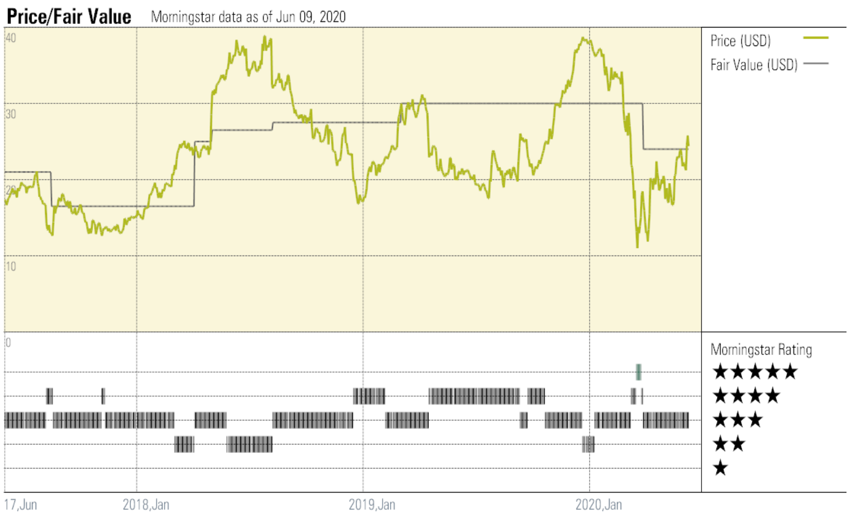

material value destruction due to Tenet's high leverage and its challenging operating landscape, so until Tenet navigates this landscape and deleverages to a more reasonable level with much less ongoing refinancing risk, we expect to maintain our no-moat rating.

Operationally, we see some factors that could eventually lead to an economic moat, but we do not think those factors outweigh the intermediate-term refinancing risks at the organization. In general, U.S. healthcare facilities primarily compete at the local level, with competitive strategy most relevant within specific metropolitan statistical areas rather than states or broader geographies. Tenet has improved its local market positions via portfolio additions and divestitures, and at last count in early 2018, management claimed a number-one or -two market position in more than 70% of its markets, which probably has risen after recent divestitures of underperforming facilities. We believe insurers in most of Tenet's markets would have significant incentive to include the organization in their provider networks at reasonable reimbursement rates, which would speak positively to its profit-generating capability under normal circumstances.

Additionally, in the ambulatory surgical center market, Tenet leads the fragmented U.S. landscape with about 5% market share, and ongoing expansion of those facilities should positively influence the company's returns, given their more favorable cash flow profile, payer mix, and capital requirements relative to Tenet's legacy facility infrastructure. Notably, though, the geographic overlap between legacy Tenet's operations and the ambulatory surgical centers it acquired through United Surgical Partners International is not perfect. USPI pioneered a unique strategy, building its ASC portfolio using a three-way partnership model among the firm, physician groups, and a local nonprofit health system to build referral networks. With a substantial portion of those ASCs outside of Tenet's legacy hospital network, there may be limited opportunities for Tenet to leverage some of its USPI facilities into a stronger negotiating position for its legacy hospital operations.

On the management front, Tenet shook up its top team in late 2017, and under the leadership of new Chairman and CEO Ron Rittenmeyer, that new team has implemented significant initiatives around its service capability, quality, efficiency, and facility portfolio that have resulted in higher profitability at the company, including ROICs above WACC. Prior to that, Tenet had struggled to generate returns over capital costs since the 2013 Vanguard acquisition. While we appreciate the significant improvement in profitability and cash flows at the organization since new management took over, we question the sustainability of those changes in the face of its near-term challenges, including its high financial leverage.

Tenet's highly leveraged capital structure could lead to major refinancing risks in the next five years, which contributes to our no-moat view of the organization. At the end of 2019, Tenet owed $14.8 billion of debt and only held $0.2 billion of cash, or a net leverage position in the mid-5s, and that net debt position accounts for most of the firm's

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enterprise value. While we recognize that the Conifer spin-off planned for mid-2021 could help Tenet reach its net leverage goal of 5.0 times in our base-case scenario, we see significant uncertainty in Tenet's near-term operating environment. Specifically, if profits contract on a sustainable basis, Tenet may have trouble refinancing its obligations at reasonable interest rates or at all, especially when its major debt maturities start coming due in 2022 and beyond.

Moat Trend

We maintain a stable moat trend on Tenet for now, despite potentially positive and negative factors emerging that could affect that trend in the near future.

Operationally, we have seen ROICs including goodwill reach the low double digits, or moderately above capital costs, under Tenet's new management team, as the firm has divested underperforming assets and focused on return-enhancing investment activities. In a normal environment, those operational improvements could be deserving of a positive moat trend based on an improving cost advantage. However, with the COVID-19 crisis in full swing, an economic downturn in the works, and a U.S. healthcare policy change possible, we see a reasonable scenario where Tenet may have to fight for its survival in the next five years because of its albatross of a debt position.

We think that bear scenario should be considered in our moat trend assessment, despite positive developments on the cost advantage-front in recent years. With potential refinancing risk emerging around its debt maturities start coming due in 2022, we can see a scenario where Tenet is unable to refinance those maturities at reasonable rates or at all, which could put the company in jeopardy. While this scenario remains a lower probability than our base-case scenario (where ROICs remain above WACC,) we cannot ignore the potential dire consequences that a bear-case scenario could have on Tenet in our moat trend assessment.

Specifically, on the profitability front, the COVID-19 crisis presents two major risks to Tenet's operations. First, profits have declined primarily due to lower healthcare service volumes during shelter-in-place orders. Beyond those effects, the economic recession associated with the social distancing in the U.S. represents a risk in and of itself. Many businesses have seen lower demand that has caused massive layoffs. As patients lose their employer-based insurance, Tenet's hospital services may be reimbursed at significantly lower rates on average, which would negatively affect profitability, as well. While we currently model in a moderate contraction of profitability in 2020 followed by a slow recovery in 2021 and beyond, significant uncertainty surrounds Tenet's near-term outlook.

Additionally, we see the potential for a public option in 2022 if Democrats gain majority control of the Senate, flip the White House, and retain control of the House. In an extreme public option scenario, there is a risk that a significant portion of patients currently covered by employer-based insurance would switch to a government-based plan, which would reimburse Tenet at lower rates for the same level of care. That scenario could cut into Tenet's profitability prospects just when we project the COVID-19 concerns are dissipating. Considering that Tenet's major debt maturities start coming due in 2022 with regular outflows required thereafter for many years, the possibility of a public option scenario that shifts a significant portion of commercially insured patients to government plans adds to the refinancing risk at Tenet. While we see our bear case as a high-impact public option scenario, significant uncertainty generally surrounds Tenet's profitability and the company's large refinancing needs in the intermediate term, which creates the risk of a negative moat trend.

Overall, we are keeping our moat trend rating at stable for

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Morningstar Analysis

now. However, we see the potential to flip to a positive trend in a mild COVID-19 scenario based on Tenet's improving cost advantage. We also see the potential for a negative trend in a severe COVID-19 or public option scenario based on weakening profit prospects due to those potential system shocks, which could lead to significant refinancing risks on its large debt position.

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Bulls Say/Bears Say

Bulls Say

- With a new management team in place since late 2017, Tenet has become a more efficient and more profitable organization, suggesting that team is making progress operationally.
- The Conifer spin-off, currently scheduled for mid-2021, could help Tenet meet its leverage target through a debt-for-debt exchange during that process.
- As the top provider of ambulatory care services in the U.S., Tenet should be able to continue benefiting from the ongoing shift of procedures to outpatient facilities from acute-care hospitals.

Bears Say

- Tenet operates with significant financial leverage that adds both fixed costs and refinancing risk to the organization.
- The ongoing COVID-19 crisis in the U.S. could cut into profits and cash flows related primarily to volume and mix in the near term while threatening to raise the uninsured patient population in the long run, if the economy remains in a sustained downturn.
- U.S. healthcare policy surrounding patient access and reimbursement rates paid by government programs could negatively influence Tenet's profit prospects, even if Medicare for All is never enacted.

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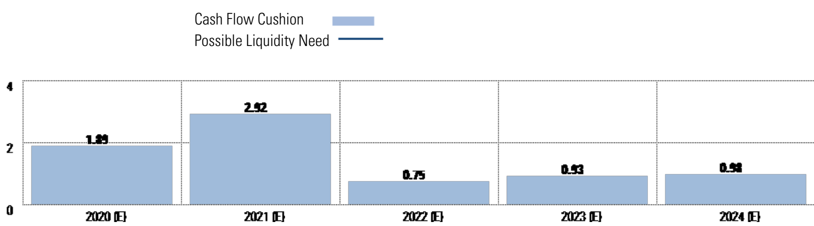
Five Year Adjusted Cash Flow Forecast (USD Mil)

	2020(E)	2021(E)	2022(E)	2023(E)	2024(E)
Cash and Equivalents (beginning of period)	262	1,435	1,671	1,473	2,209
Adjusted Available Cash Flow	2,507	2,673	1,434	1,480	1,548
Total Cash Available before Debt Service	2,769	4,108	3,105	2,953	3,757
Principal Payments	-171	-112	-2,851	-1,903	-2,486
Interest Payments	-985	-985	-985	-950	-1,023
Other Cash Obligations and Commitments	-311	-311	-319	-329	-342
Total Cash Obligations and Commitments	-1,467	-1,408	-4,155	-3,182	-3,851

Cumulative Annual Cash Flow Cushion



Adjusted Cash Flow Summary

	USD Millions	% of Commitments
Beginning Cash Balance	262	1.9
Sum of 5-Year Adjusted Free Cash Flow	9,642	68.6
Sum of Cash and 5-Year Cash Generation	9,904	70.4
Revolver Availability	—	—
Asset Adjusted Borrowings (Repayment)	—	—
Sum of Cash, 5-Year Cash Generation, Revolver and Adjustments	9,904	70.4
Sum of 5-Year Cash Commitments	-14,064	—

Financial Strength

Tenet's financial position has been weak since the Vanguard acquisition in 2013, and while we see a path to Tenet meeting its net leverage goal of 5.0 times in the intermediate term, refinancing risks appear to be rising. At the end of 2019, Tenet's liquidity was solid with $232 million in cash that covers its 2020 maturity ($171 million) and had $1.5 billion available for borrowing on its credit facility that matures in 2024. However, Tenet owed $14.8 billion of debt at the end of 2019, or net leverage in the mid-5s. The company's debt is split between $6.1 billion of senior secured notes, $2.9 billion of senior secured second lien notes, $5.5 billion in senior unsecured notes, and $0.3 billion in other net obligations, mostly capital leases and mortgage notes. Major debt maturities including capital lease obligations during the next five years consist of $0.2 billion due in 2020, $0.1 billion due 2021, $2.9 billion due 2022, $1.9 billion in 2023, and $2.5 billion due 2024. With existing financial resources, the company should be able to manage those obligations during the next two years through internal means, assuming the COVID-19 crisis is a temporary and relatively mild shock. The company's debt position may also decline after the mid-2021 planned spin-off of Conifer, which is expected to deliver around $1.4 billion of net revenue and $385 million-$395 million of adjusted EBITDA in 2020. If that spin-off is financed at debt/EBITDA around 5 times, Tenet could reach its net leverage target quickly after that spin-off in our base-case scenario. However, we would note there is significant uncertainty around Tenet's results in the next couple years due to the ongoing COVID-19 crisis and the 2020 election, which could lead to some changes to the U.S. healthcare system in future years. If profits materially contract, Tenet may have trouble refinancing at reasonable interest rates or at all when its major debt maturities come due starting in 2022 and beyond.

Risk & Uncertainty

Tenet's highly leveraged capital structure creates immense

sensitivity when trying to pinpoint equity valuation, which is the primary reason we give it an extreme uncertainty rating. At the end of 2019, Tenet owed $14.8 billion of debt and only held $0.2 billion of cash, or net leverage in the mid-5s. While we recognize that the Conifer spin-off planned for mid-2021 could help Tenet reach its net leverage goal of 5.0 times, we see significant uncertainty in Tenet's near-term operating environment. Specifically, if profits materially contract, Tenet may have trouble refinancing at reasonable interest rates or at all when its major debt obligations start coming due in 2022 and beyond, and that significant refinancing risk informs our extreme uncertainty rating for Tenet. The COVID-19 crisis presents two major risks to Tenet's operations. First, profits have declined primarily due to lower healthcare service volumes during shelter-in-place orders. Beyond those effects, the economic recession associated with the social distancing in the U.S. represents a risk in and of itself. Many businesses have seen lower demand that has caused massive layoffs. As patients lose their employer-based insurance, Tenet's hospital services may be reimbursed at significantly lower rates on average, which would negatively affect profitability, as well. While we currently model in a moderate contraction of profitability in 2020 followed by a slow recovery in 2021 and beyond, significant uncertainty surrounds Tenet's near-term outlook.Beyond that crisis, the 2020 election could usher in policy changes just when the firm's major debt obligations start maturing. Specifically, while the "Medicare for All" threat has dissipated in this election cycle, a public option is possible, which could lead to a shift in some employer-based plans to government-based plans that reimburse at lower rates in a high-impact scenario. This change could squeeze profits at Tenet in the long run.

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Management & Ownership

Management Activity

Name	Position	Shares Held	Report Date*	InsiderActivity
MR. RONALD A. RITTENMEYER	CEO/Chairman of the Board/ Director,Director	433,996	31 Mar 2020	—
MR. DANIEL J. CANCELMI	CFO/Executive VP	339,937	13 Mar 2020	—
MS. AUDREY T. ANDREWS	Executive VP/General Counsel/ Secretary	73,736	27 Feb 2020	—
MR. J. ROBERT KERREY	Director	73,430	29 May 2020	—
MS. TAMMY ROMO	Director	56,802	29 May 2020	—
DR. SAUMYA SUTARIA, M.D.	COO/President	49,413	16 Mar 2020	—
MR. JAMES L. BIERMAN	Director	42,242	29 May 2020	—

*Represents the date on which the owner's name, position, and common shares held were reported by the holder or issuer.

Fund Ownership

Top Owners	% of Shares Held	% of Fund Assets	Change (k)	Portfolio Date
Vanguard Total Stock Market Index Fund	2.92	0.01	-32	31 May 2020
Vanguard US Total Market Shares ETF	2.92	0.01	-32	31 May 2020
iShares Core S&P Mid-Cap ETF	2.75	0.15	-12	31 May 2020
Vanguard Small Cap Index	2.62	0.07	17	31 May 2020
iShares Russell 2000 ETF	2.07	0.13	-7	31 May 2020
Concentrated Holders				
SiM Apex Value Fund	0.00	5.83	—	31 May 2020
Winslow Asset Mgt Small-Cap Core Equity	0.01	3.55	—	31 May 2020
GUGG Undervalued Top picks 19	0.00	3.23	—	31 May 2020
Symons Small Cap Value	0.02	2.72	0	31 May 2020
FT Sabrient Small Cap Growth 24	0.01	2.40	0	31 May 2020

Institutional Transactions

Top 5 Buyers	% of Shares Held	% of Fund Assets	Shares Bought/ Sold (k)	Portfolio Date
Cathay Securities Investment Trust	5.79	5.71	5,990	31 May 2020
Nomura Asset Management Co Ltd	1.01	0.84	1,015	31 May 2020
Camber Capital Management LLC	3.38	3.01	1,000	31 May 2020
Mudrick Capital Management LP	0.60	10.98	623	31 May 2020
Federated Hermes Inc	0.65	0.06	575	31 May 2020
Top 5 Sellers				
Davidson Kempner Capital Management LP	1.39	2.11	-3,430	31 May 2020
Cyrus Capital Partners, LP	—	—	-1,971	31 May 2020
Geode Capital Management, LLC	1.57	0.01	-1,423	31 May 2020
Nantahala Capital Management, LLC	1.07	1.29	-900	31 May 2020
JPMorgan Chase & Co	1.84	0.01	-666	31 May 2020

Stewardship 10 Jun 2020

While we think the new management team has done an admirable job trying to right the ship at Tenet, sins of previous management teams--especially its high financial leverage--could put the company in jeopardy once a steady stream of large debt maturities start coming due in 2022. Considering its ongoing refinancing needs in both our base- and bear-case scenarios and the potential for material value destruction along with those refinancing needs, we give Tenet a Poor stewardship grade. If the company can ride out the COVID-19-related shocks to its operations and the potential U.S. healthcare policy changes possible after the 2020 election without significantly impairing its ability to repay debt obligations, we would reconsider our rating. For now, though, previous management team actions could put the company at risk of defaulting on its obligations within the next few years, which informs our Poor score.

Specifically, Tenet materially inflated its debt/adjusted EBITDA leverage from around 4 times prior to the Vanguard acquisition in 2013 and the USPI transactions that started in 2015 to about 6 times, and Tenet has never returned to pre-2013 leverage levels despite many divestitures. Leverage remained in the mid-5s at of the end of 2019. With the potential for profit contraction during the COVID-19 crisis and beyond, especially if potential U.S. healthcare policy changes encourage a shift from employer-based insurance to government-sponsored plans, Tenet's financial leverage actually may rise materially in the near future rather than decline to its target of 5 times. That high and potentially increasing financial leverage may significantly increase Tenet's refinancing risk, which could especially stress the company when its large maturities start coming due in 2022 and beyond. There is a chance the company could default on those obligations, which reflects poorly primarily on the previous stewards of this organization but ultimately affects today's shareholders.

We would note that the new management team led by Ron

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Rittenmeyer has been making many operational strides since taking over in late 2017. For example, we think portfolio pruning efforts in the form of divesting non-performing assets and the planned Conifer spin-off are steps in the right direction that could help Tenet deleverage eventually. Rittenmeyer, in particular, appears to have been able to hit the ground running due to his familiarity with the organization after being a board member since 2010. Also, Rittenmeyer's background includes key leadership stints at reorganizing entities. He appears to be using those and other experiences to improve operational efficiencies within Tenet's hospitals by using more detailed analytics to improve cost controls and service quality, leading to better physician and patient experiences, too. We generally see these sorts of changes and the significant turnover on the board in recent years as positive for the organization. However, those positive factors may not be enough to prevent potential default on Tenet's obligations given the external risks currently rising around the company, which informs our stewardship rating.

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Analyst Notes

Tenet Pulls Liquidity Levers After COVID-19 Starts Hitting Operations in Late March; Maintaining FVE 05 May 2020
After pulling its guidance for 2020 in early April because of the COVID-19 crisis, Tenet gave more details about its first-quarter results and current liquidity position. Positively, Tenet looks likely to withstand this initial liquidity crunch with the aid of federal programs and additional borrowings. We are maintaining our fair value estimate and suspect the ongoing financial health of this no-moat healthcare service provider will be dictated by the trajectory of volume returns following the COVID-19 crisis.

The COVID-19 crisis has resulted in a severe decline in Tenet's service volumes. In the first quarter, this impact was limited to late March, but adjusted admissions in the quarter were down about 5% on a same-facility basis. Tenet generated a respectable $585 million in adjusted EBITDA, or only down 6% year over year, despite COVID-19 effects lowering EBITDA for the quarter by about $125 million. Specifically, in late March, same-facility admissions declined about 25% and ambulatory surgeries declined about 53%.

Tenet's volumes declined further in April, including total admissions and ambulatory surgery volumes down about 33% and 80%, respectively. Fortunately, we think April will likely represent the trough of 2020, with the potential for improving service volumes starting in May as shelter-in-place orders have been lifted in key Tenet states, like Texas and Florida. Positively, Tenet has stated that it does not expect a material cash burn, even excluding government-related inflows, in the second quarter. However, some of the volume declines experienced since late March will not return to the hospital system, which makes Tenet's initial guidance that was pulled in early April very unlikely. Based on these disclosures, we slightly trimmed our 2020 estimates, expecting $2.2 billion in adjusted EBITDA (versus $2.3 billion previously and management's initial outlook of $2.8 billion-$2.9 billion.)

While significant uncertainty still surrounds 2020 results, we believe Tenet should be able to withstand the near-term liquidity crunch associated with the recent volume declines. Tenet highlighted that as of May 1, it had $2.2 billion of excess cash available after government-related inflows and recent borrowings. It also has $1.9 billion of borrowing capacity on its revolving credit facility.

Tenet is taking many internal actions to improve its financial position. Specifically, it has reduced its capital spending budget for 2020 by about $300 million (around 40%) and reduced its variable labor costs to limit its downside risks in the near term. Those internal actions should help Tenet even in the second quarter, as management aims to retain, rather than burn through a material amount of, cash in the quarter that we suspect will be the trough for COVID-19 effects.

From a government program perspective, Tenet has received significant grants and other liquidity benefits. Specifically, Tenet has received $345 million in April in a grant from the U.S. government that does not have to be repaid. Since $125 billion of the $175 billion total allocation for caregivers has yet to be distributed, Tenet's inflows from this grant program could increase significantly, although the methodology for distribution is yet to be determined. In addition to 20% higher payment rates for COVID-19 patients from Medicare, Tenet also expects to receive about $127 million in higher-than-expected payments from Medicare and Medicaid overall in 2020 that does not have to be repaid. The company also highlighted several government programs that it would have to repay but that could boost liquidity during these uncertain times. For example, Tenet received $1.5 billion of those advanced payments in April from Medicare, which helped boost the company's liquidity. There has also been a deferral of funding of the Social Security payroll tax for

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Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
24.40 USD	24.00 USD	Extreme	None	Stable	Poor	Healthcare Providers & Services

Analyst Notes

hospitals, meaning Tenet can delay funding of about $250 million of taxes this year and push back payments to 2021 (half) and 2022 (half). We think these, and other programs, could help Tenet and other U.S. hospitals remain operational, despite the challenges associated with the COVID-19 crisis.

Tenet Pulls 2020 Guidance and Issues Debt to Stave Off Liquidity Concerns During COVID-19 Crisis 02 Apr 2020
No-moat Tenet pulled its first-quarter and full-year guidance for 2020 in the midst of the COVID-19 crisis. The highly leveraged company also announced plans to issue $500 million in secured first-lien debt to repay a portion of the borrowings on its credit facility ($500 million in principal outstanding as of March 31) and for general corporate purposes. These actions give investors an idea of the sort of concerns that Tenet now faces during the pandemic. So although we are keeping our fair value estimate intact for now, our uncertainty rating remains extreme, primarily because of the COVID-19 crisis and Tenet's own intermediate-term refinancing risks on its high debt leverage.

As suspected, Tenet highlighted that, so far, the COVID-19 crisis is not overwhelming its hospitals with increased volume. Rather, elective and routine healthcare services are being delayed or canceled during shelter-in-place orders and general apprehension from non-COVID-19 patients about receiving nonemergency treatment. Management said that its ambulatory surgery procedures were down 60% or more in the last couple weeks of March, with some facilities shut down altogether and others open only one or two days per week. Management has encouraged its facilities and physician network to boost operating hours once those facilities come back on line in May in an attempt to regain some of that lost volume.

However, we suspect some revenue will just be lost during this period of isolation in the U.S., which makes Tenet's initial guidance unlikely. Our 2020 estimates for profitability ($2.3 billion of EBITDA versus initial guidance of $2.8 billion-$2.9 billion) and cash flows (about $375 million of free cash flow before any federal grants versus initial guidance of $775 million to $975 million) are already below the company's initial guidance, and this announcement reinforces our view.

While uncertainty still surrounds all of those figures, the company's spending cuts could help liquidity in the near term, even as some supply costs rise. Tenet should be able to offset some volume declines through cuts in its variable labor costs. For example, in its ambulatory surgical centers, it does not have to pay staff-related costs on the days when it is closed. We expect similar labor cost reductions in hospitals if volumes remain lower than usual. The company has also furloughed some workers to reduce costs.

Additionally, government programs may provide some benefits for Tenet in 2020. Potential grant money from the federal government, which has yet to be determined but that we have included in our valuation around $500 million, should be a pure benefit. In addition to 20% higher payment rates for COVID-19 patients from Medicare, Tenet also expects to receive about $127 million in higher-than-expected payments from Medicare and Medicaid overall in 2020 that does not have to be repaid. The company also highlighted several government programs that it would have to repay but that could boost liquidity during these uncertain times. For example, Medicare plans to give hospitals up to six months and other providers up to three months of advanced payments. Tenet believes its network of caregivers would be eligible for $1.5 billion of those advanced payments, which should help boost the company's liquidity in the near term. There has also been a deferral of funding of the Social Security payroll tax for hospitals, meaning Tenet can delay funding of about $250 million of taxes this year and push them back to payments in 2021

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Analyst Notes

(half) and 2022 (half). We think these, and other programs, could help Tenet and other U.S. hospitals remain operational despite the challenges during the COVID-19 crisis.

Additionally, Tenet is in the market issuing about $500 million in secured debt in a private placement. The company said that it had over $500 million in cash at the end of March, but it did not pay off its credit facility borrowings. This new debt will be used to pay off a portion of those borrowings and for other general corporate purposes.

COVID Crisis Highlights Moat and Leverage Differences Between HCA and Tenet 27 Mar 2020

We are taking a fresh look at hospital operators HCA and Tenet. We believe the ongoing shocks to the U.S. healthcare system highlight the different moat ratings and financial strength of the two organizations. Specifically, we are maintaining our narrow moat rating for HCA and our no-moat rating for Tenet. Also, we have increased our uncertainty rating for Tenet to extreme to reflect the refinancing risk that could emerge in the intermediate term. We have trimmed our fair value estimates for both HCA and Tenet, although recent trades remain below both of our new fair value estimates.

We believe the COVID-19 crisis represents two major risks to the industry's near-term profitability. First, operating profits may decline in 2020 due to potential volume, mix, and cost-related concerns related to the COVID-19 outbreak. The second major risk relates to the economic downturn associated with shelter-in-place initiatives, which is causing massive layoffs. If those layoffs are sustained, related payer mix changes could cause hospital services to be reimbursed at significantly lower rates on average, which would constrain profitability. Additionally, the potential for a public option after this election cycle or an influential public option scenario could put significant pressure on profits in 2022 and beyond.

For both firms, we have run bear-case scenarios that consider a weak 2020-21 period followed by an influential public option scenario in 2022 and beyond. In this scenario, HCA maintains ROICs above its weighted average cost of capital, while Tenet's fall well below WACC, which informs our different moat ratings. Also, in this scenario, we think Tenet faces significant refinancing risks when its large bolus of debt maturities start coming due in 2022 and beyond. Overall, we continue to think HCA's more pronounced operating cost advantages and financial flexibility differentiate it from Tenet, which is reflected in our different moat and uncertainty ratings.

Super Tuesday Primary Results Provide Relief Rally for Health Insurance and Service Providers 04 Mar 2020

Stocks in several healthcare sectors, including the health insurers and service providers, surged after Super Tuesday results showed significant support behind moderate Democrat Joe Biden. We do not expect any changes to our moats or valuations based on these results, but we now see the Democratic presidential nomination as a two-horse race between Biden and the more liberal Bernie Sanders. While delegate tallies still need to be finalized, we think it would be difficult for another candidate to win the Democratic nomination, and recent moderate momentum appears to be rallying healthcare stocks.

Specifically, the difference between Biden and Sanders would be stark for the healthcare industry. One of the hallmarks of Sanders' candidacy is the pursuit of a Medicare for All requirement that would eliminate the private health insurance industry. We have argued that this scenario is highly unlikely in the next 10 years, but if Medicare for All were enacted, there would be significant consequences for health insurers, dialysis companies, and other service providers in particular. Biden's stance on the healthcare industry appears much more moderate and would likely

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build on the Obama administration's key legislative achievement, the Affordable Care Act. If Biden were the Democratic nominee, we would expect him to pursue a public option to further increase access to and affordability of health insurance in the U.S. In this scenario, we would expect the U.S. healthcare system to largely remain the same with the potential for higher insurance rolls and an increase in government-sponsored (but not necessarily government-run) programs, like Medicare Advantage. On one end of the spectrum, health insurers with a large concentration in government programs could benefit from a public option. In general though, the consolidation of moderate Democrat momentum behind Biden has acted as a catalyst for healthcare stocks that had been pressured by Sanders' Medicare for All plan.

Three major things would need to happen to make the Medicare for All requirement a reality, and all three things happening during this election cycle appear highly unlikely to us. First, a candidate that endorses Medicare for All (Bernie Sanders) would have to win the Democratic party's nomination for the presidency. With Biden consolidating moderate Democrat support and winning many delegates on Super Tuesday, the delegate lead that Sanders built in the early primaries appears to be slipping and may erode completely once all of the Super Tuesday votes are counted. Second, Sanders would need to beat Trump in the November general election, which we view as a coin flip at best, currently. Third, Democrats would need to flip the Senate from a Republican majority to a filibuster-proof (60-plus) majority to push through such significant legislation as a Medicare for All requirement. We see this third event as the lowest probability event of the three, providing the highest hurdle for a Medicare for All requirement in this election cycle. Additionally, even with all three of these events potentially occurring, several moderate/conservative democrats could derail a Medicare for All proposal without too much trouble, further reducing the chances of a Medicare for All scenario.

In general, we see a public option, rather than a requirement that eliminates the private health insurance industry, as much more likely. To introduce a public option, we think Democrats would need to merely flip the White House and obtain a simple majority in the Senate to build on the current system through the budget reconciliation process. We see several public option scenarios, but in any public option scenario, we think the U.S. healthcare system would remain largely intact with room for private insurers to continue thriving, which would also support U.S. service providers dependent on those insurers' higher reimbursement rates relative to government programs. The devil will be in the details of any change to the U.S. healthcare system, though. On one end of the spectrum, an increase in access to insurance could actually benefit U.S. health insurers and service providers. We have also run an extreme public option scenario on all the health insurers where government programs steal significant market share from employer-based insurance rolls, particularly in small-employer plans. In this scenario, we see the risk to insurer valuations as follows from least to most risk: Cigna (5% risk), CVS (10%), UnitedHealth (13%), Humana (28%), and Anthem (30%). But in general even in this extreme public-option scenario, we would expect narrow economic moats to still surround those firms.

Tenet Healthcare Corp Reports Q4 Results Slightly Better Than Expectations; Maintain Our $30 FVE 25 Feb 2020

No-moat Tenet Healthcare Corporation reported fourth-quarter and year-end results that were slightly ahead of our expectations. The firm reported overall revenue growth up about 1% year over year and slightly beat EBITDA estimates from Capital IQ, thanks to consistent volume growth in its hospital segment and strength in cost management. As we update and roll our model, we do not expect to make significant changes to our $30 per share fair value estimate, while we may make modest adjustments to

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Analyst Notes

our forecast.

In the quarter, Tenet experienced revenue of approximately $5 billion, representing a 4% increase from the year-ago period, and adjusted EBITDA impressively grew about 18% year over year. In hospital operations, the firm generated adjusted EBITDA growth of approximately 16%, although margins remained flattish for the fiscal year, primarily due to strength in admissions and revenue on a same-hospital basis, partially offset by its hospital divestitures. In ambulatory care, adjusted EBITDA grew about 24% compared with the year-ago period. At Conifer, the firm experienced a revenue decline of approximately 11% year over year, affected by hospital divestitures at Tenet and its customers.

Moving forward, management provided broad-based guidance for 2020, with adjusted EBITDA estimates between $2.785 billion and $2.885 billion and an adjusted EPS target between $2.69 and $3.35. Our EBITDA estimate is projected to fall at the lower end of management's expectations while our earnings estimate is projected to be in line with expectations. In 2020, we expect Tenet to face some bumps with reductions in the disproportionate share revenue (DSH) related to the Affordable Care Act and as management continues to work on its intended spin-off of Conifer by 2021.

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Morningstar Analyst Forecasts

Financial Summary and Forecasts

Fiscal Year Ends in December

Growth (% YoY)	3-Year Hist. CAGR	2017	2018	2019	Forecast 2020	Forecast 2021	5-Year Proj. CAGR
Revenue	-2.0	-2.3	-4.5	0.9	-5.1	4.2	1.7
EBIT	5.9	-1.9	15.3	4.9	-25.8	19.4	3.2
EBITDA	3.9	1.3	4.8	5.7	-20.2	12.4	1.8
Net Income	68.2	961.0	-68.4	42.0	-34.3	25.2	2.6
Diluted EPS	65.2	947.6	-69.4	40.6	-34.8	25.2	2.5
Earnings Before Interest, after Tax	-15.3	220.8	-79.0	-9.7	70.6	-44.1	-0.2
Free Cash Flow	25.9	—	-74.4	-36.7	190.3	5.3	7.0

Profitability	3-Year Hist. Avg	2017	2018	2019	2020	2021	5-Year Proj. Avg
Operating Margin %	9.2	8.0	9.7	10.0	7.9	9.0	9.8
EBITDA Margin %	13.8	12.7	14.0	14.6	12.3	13.3	13.9
Net Margin %	2.0	3.3	1.1	1.5	1.1	1.3	1.4
Free Cash Flow Margin %	11.6	24.3	6.5	4.1	12.5	12.6	8.2
ROIC %	17.6	15.6	17.8	19.5	16.7	19.6	23.0
Adjusted ROIC %	10.2	9.3	10.3	11.0	9.1	10.0	11.5
Return on Assets %	-1.2	-2.9	0.5	-1.0	2.9	0.3	1.0
Return on Equity %	-170.1	-521.5	-83.5	94.7	-902.2	43.5	-641.9

Leverage	3-Year Hist. Avg	2017	2018	2019	2020	2021	5-Year Proj. Avg
Debt/Capital	1.01	1.01	1.01	1.03	0.99	0.99	1.01
Total Debt/EBITDA	5.78	6.11	5.79	5.45	6.75	5.55	5.42
EBITDA/Interest Expense	2.56	2.38	2.55	2.75	2.19	2.46	2.66

Valuation Summary and Forecasts

	2018	2019	2020(E)	2021(E)
Price/Fair Value	0.62	1.27	—	—
Price/Earnings	9.0	14.2	13.9	11.1
EV/EBITDA	6.3	6.9	8.0	7.1
EV/EBIT	9.1	10.1	12.5	10.5
Free Cash Flow Yield %	24.6	14.2	50.7	11.0
Dividend Yield %	15.1	7.2	3.2	7.5

Key Valuation Drivers

Cost of Equity %	9.0
Pre-Tax Cost of Debt %	10.0
Weighted Average Cost of Capital %	7.9
Long-Run Tax Rate %	22.5
Stage II EBI Growth Rate %	3.0
Stage II Investment Rate %	27.3
Perpetuity Year	11

Additional estimates and scenarios available for download at http://select.morningstar.com.

Discounted Cash Flow Valuation

	USD Mil	Firm Value (%)	Per Share Value
Present Value Stage I	9,503	55.9	89.93
Present Value Stage II	399	2.3	3.77
Present Value Stage III	7,112	41.8	67.31
Total Firm Value	**17,014**	**100.0**	**161.01**
Cash and Equivalents	262	—	2.48
Debt	-14,751	—	-139.60
Preferred Stock	—	—	—
Other Adjustments	—	—	—
Equity Value	**2,525**	**—**	**23.89**
Projected Diluted Shares	106		
Fair Value per Share (USD)	**24.00**		

The data in the table above represent base-case forecasts in the company's reporting currency as of the beginning of the current year. Our fair value estimate may differ from the equity value per share shown above due to our time value of money adjustment and in cases where probability-weighted scenario analysis is performed.

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Morningstar Analyst Forecasts

Income Statement (USD Mil)
Fiscal Year Ends in December

				Forecast	
	2017	2018	2019	*2020*	*2021*
Revenue	**19,179**	**18,313**	**18,479**	***17,536***	***18,266***
Cost of Goods Sold	12,359	11,638	11,761	*11,574*	*11,873*
Gross Profit	**6,820**	**6,675**	**6,718**	***5,962***	***6,393***
Selling, General & Administrative Expenses	4,570	4,259	4,189	*3,981*	*4,110*
Other Operating Expense (Income)	-9	-3	—	—	—
Other Operating Expense (Income)	-144	-150	-175	*-175*	*-183*
Depreciation & Amortization (if reported separately)	870	802	850	*780*	*822*
Operating Income (ex charges)	**1,533**	**1,767**	**1,854**	***1,377***	***1,644***
Restructuring & Other Cash Charges	541	209	185	*200*	*208*
Impairment Charges (if reported separately)	23	38	141	—	—
Other Non-Cash (Income)/Charges	-144	-127	15	—	—
Operating Income (incl charges)	**1,113**	**1,647**	**1,513**	***1,177***	***1,436***
Interest Expense	1,028	1,004	985	*985*	*985*
Interest Income	-186	-4	-232	—	—
Pre-Tax Income	**-101**	**639**	**296**	***192***	***451***
Income Tax Expense	219	176	153	*43*	*101*
Other After-Tax Cash Gains (Losses)	—	3	11	*645*	—
Other After-Tax Non-Cash Gains (Losses)	—	—	—	—	—
(Minority Interest)	-384	-355	-386	*-119*	*-279*
(Preferred Dividends)	—	—	—	—	—
Net Income	**-704**	**111**	**-232**	***674***	***70***
Weighted Average Diluted Shares Outstanding	101	104	105	*106*	*106*
Diluted Earnings Per Share	**-7.00**	**1.07**	**-2.21**	***6.38***	***0.66***
Adjusted Net Income	627	198	281	*185*	*231*
Diluted Earnings Per Share (Adjusted)	**6.23**	**1.91**	**2.68**	***1.75***	***2.19***
Dividends Per Common Share	2.26	2.58	2.73	*0.77*	*1.82*
EBITDA	**1,983**	**2,449**	**2,363**	***1,960***	***2,219***
Adjusted EBITDA	**2,444**	**2,560**	**2,706**	***2,160***	***2,427***

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Morningstar Analyst Forecasts

Balance Sheet (USD Mil)

Fiscal Year Ends in December	2017	2018	2019	*Forecast 2020*	*Forecast 2021*
Cash and Equivalents	611	411	262	*1,435*	*1,671*
Investments	—	—	—	—	—
Accounts Receivable	2,616	2,595	2,743	*2,603*	*2,711*
Inventory	289	305	310	*305*	*313*
Deferred Tax Assets (Current)	—	—	—	—	—
Other Short Term Assets	2,057	1,325	1,766	*1,754*	*1,827*
Current Assets	**5,573**	**4,636**	**5,081**	***6,096***	***6,522***
Net Property Plant, and Equipment	7,030	6,993	6,878	*6,403*	*6,028*
Goodwill	7,018	7,281	7,252	*7,252*	*7,252*
Other Intangibles	1,766	1,731	1,602	*1,345*	*301*
Deferred Tax Assets (Long-Term)	455	312	169	—	—
Other Long-Term Operating Assets	—	—	—	—	—
Long-Term Non-Operating Assets	1,543	1,456	2,369	*2,369*	*2,369*
Total Assets	**23,385**	**22,409**	**23,351**	***23,466***	***22,473***
Accounts Payable	1,175	1,207	1,204	*1,185*	*1,236*
Short-Term Debt	146	182	171	*112*	*2,851*
Deferred Tax Liabilities (Current)	—	—	—	—	—
Other Short-Term Liabilities	3,011	2,468	2,830	*2,630*	*2,740*
Current Liabilities	**4,332**	**3,857**	**4,205**	***3,927***	***6,827***
Long-Term Debt	14,791	14,644	14,580	*14,468*	*10,617*
Deferred Tax Liabilities (Long-Term)	36	36	27	—	—
Other Long-Term Operating Liabilities	1,285	1,244	1,990	*1,929*	*2,009*
Long-Term Non-Operating Liabilities	536	521	560	*560*	*560*
Total Liabilities	**20,980**	**20,302**	**21,362**	***20,884***	***20,013***
Preferred Stock	—	—	—	—	—
Common Stock	7	7	7	*7*	*7*
Additional Paid-in Capital	4,859	4,747	4,760	*4,760*	*4,760*
Retained Earnings (Deficit)	-2,390	-2,236	-2,467	*-1,874*	*-1,997*
(Treasury Stock)	-2,419	-2,414	-2,414	*-2,414*	*-2,414*
Other Equity	-204	-223	-257	*-257*	*-257*
Shareholder's Equity	**-147**	**-119**	**-371**	***222***	***99***
Minority Interest	2,552	2,226	2,360	*2,360*	*2,360*
Total Equity	**2,405**	**2,107**	**1,989**	***2,582***	***2,459***

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Morningstar Analyst Forecasts

Cash Flow (USD Mil)

Fiscal Year Ends in December	2017	2018	2019	*Forecast 2020*	*Forecast 2021*
Net Income	-320	466	154	*793*	*349*
Depreciation	698	617	662	*614*	*639*
Amortization	172	185	188	*169*	*144*
Stock-Based Compensation	59	46	42	*40*	*41*
Impairment of Goodwill	—	—	—	—	—
Impairment of Other Intangibles	541	209	185	—	—
Deferred Taxes	200	150	137	*142*	—
Other Non-Cash Adjustments	1,355	-250	159	—	—
(Increase) Decrease in Accounts Receivable	-1,448	-134	-247	*140*	*-108*
(Increase) Decrease in Inventory	-35	17	-94	*5*	*-8*
Change in Other Short-Term Assets	-38	-3	8	*-75*	*-298*
Increase (Decrease) in Accounts Payable	-10	-152	36	*-19*	*51*
Change in Other Short-Term Liabilities	26	-102	3	*-200*	*110*
Cash From Operations	**1,200**	**1,049**	**1,233**	***1,609***	***920***
(Capital Expenditures)	-707	-617	-670	*-314*	*-639*
Net (Acquisitions), Asset Sales, and Disposals	777	430	55	*350*	*1,500*
Net Sales (Purchases) of Investments	-32	72	20	—	—
Other Investing Cash Flows	-17	—	-24	*-61*	*80*
Cash From Investing	**21**	**-115**	**-619**	***-25***	***941***
Common Stock Issuance (or Repurchase)	7	16	12	—	—
Common Stock (Dividends)	-227	-268	-286	*-82*	*-192*
Short-Term Debt Issuance (or Retirement)	—	—	—	*-59*	*2,739*
Long-Term Debt Issuance (or Retirement)	-406	-289	-482	*-112*	*-3,851*
Other Financing Cash Flows	-700	-593	-7	*-159*	*-321*
Cash From Financing	**-1,326**	**-1,134**	**-763**	***-411***	***-1,625***
Exchange Rates, Discontinued Ops, etc. (net)	—	—	—	—	—
Net Change in Cash	**-105**	**-200**	**-149**	***1,173***	***236***

Tenet Healthcare Corp THC (NYSE) | ★★★

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Comparable Company Analysis

These companies are chosen by the analyst and the data are shown by nearest calendar year in descending market capitalization order.

Valuation Analysis

Company/Ticker	Price/Fair Value	Price/Earnings 2019	Price/Earnings 2020(E)	Price/Earnings 2021(E)	EV/EBITDA 2019	EV/EBITDA 2020(E)	EV/EBITDA 2021(E)	Price/Free Cash Flow 2019	Price/Free Cash Flow 2020(E)	Price/Free Cash Flow 2021(E)	Price/Book 2019	Price/Book 2020(E)	Price/Book 2021(E)	Price/Sales 2019	Price/Sales 2020(E)	Price/Sales 2021(E)
HCA Healthcare Inc HCA USA	0.87	14.1	21.0	11.7	8.6	10.7	7.7	14.5	18.2	13.5	—	—	—	1.0	0.9	0.7
Average		14.1	21.0	11.7	8.6	10.7	7.7	14.5	18.2	13.5	—	—	—	1.0	0.9	0.7
Tenet Healthcare Corp THC US	**1.02**	**14.2**	**13.9**	**11.1**	**6.9**	**8.0**	**7.1**	**7.0**	**2.0**	**9.1**	—	—	—	**0.2**	**0.1**	**0.1**

Returns Analysis

Company/Ticker	Last Historical Year Total Assets (Mil)	ROIC % 2019	ROIC % 2020(E)	ROIC % 2021(E)	Adjusted ROIC % 2019	Adjusted ROIC % 2020(E)	Adjusted ROIC % 2021(E)	Return on Equity % 2019	Return on Equity % 2020(E)	Return on Equity % 2021(E)	Return on Assets % 2019	Return on Assets % 2020(E)	Return on Assets % 2021(E)	Dividend Yield % 2019	Dividend Yield % 2020(E)	Dividend Yield % 2021(E)
HCA Healthcare Inc HCA USA	45,058 USD	21.9	12.4	17.2	16.9	9.7	13.4	-90.4	-243.5	283.1	8.3	7.2	6.5	2.1	0.4	—
Average		21.9	12.4	17.2	16.9	9.7	13.4	-90.4	-243.5	283.1	8.3	7.2	6.5	2.1	0.4	—
Tenet Healthcare Corp THC US	**23,351** USD	**19.5**	**16.7**	**19.6**	**11.0**	**9.1**	**10.0**	**94.7**	**-902.2**	**43.5**	**-1.0**	**2.9**	**0.3**	**7.2**	**3.2**	**7.5**

Growth Analysis

Company/Ticker	Last Historical Year Revenue (Mil)	Revenue Growth % 2019	Revenue Growth % 2020(E)	Revenue Growth % 2021(E)	EBIT Growth % 2019	EBIT Growth % 2020(E)	EBIT Growth % 2021(E)	EPS Growth % 2019	EPS Growth % 2020(E)	EPS Growth % 2021(E)	Free Cash Flow Growth % 2019	Free Cash Flow Growth % 2020(E)	Free Cash Flow Growth % 2021(E)	Dividend/Share Growth % 2019	Dividend/Share Growth % 2020(E)	Dividend/Share Growth % 2021(E)
HCA Healthcare Inc HCA USA	51,336 USD	10.0	-10.6	18.0	8.8	-36.2	49.0	7.5	-47.3	78.6	-18.7	-16.8	44.8	20.1	-86.0	-100.0
Average		10.0	-10.6	18.0	8.8	-36.2	49.0	7.5	-47.3	78.6	-18.7	-16.8	44.8	20.1	-86.0	-100.0
Tenet Healthcare Corp THC US	**18,479** USD	**0.9**	**-5.1**	**4.2**	**4.9**	**-25.8**	**19.4**	**40.6**	**-34.8**	**25.2**	**-36.7**	**190.3**	**5.3**	**5.7**	**-71.7**	**135.2**

Tenet Healthcare Corp THC (NYSE) | ★★★

Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
24.40 USD	24.00 USD	Extreme	None	Stable	Poor	Healthcare Providers & Services

Comparable Company Analysis

These companies are chosen by the analyst and the data are shown by nearest calendar year in descending market capitalization order.

Profitability Analysis

Company/Ticker	Last Historical Year Net Income (Mil)	Gross Margin % 2019	2020(E)	2021(E)	EBITDA Margin % 2019	2020(E)	2021(E)	Operating Margin % 2019	2020(E)	2021(E)	Net Margin % 2019	2020(E)	2021(E)	Free Cash Flow Margin % 2019	2020(E)	2021(E)
HCA Healthcare Inc HCA USA	3,655 USD	37.6	*34.0*	*36.0*	19.2	*15.2*	*17.9*	14.1	*10.1*	*12.8*	7.1	*4.2*	*6.2*	6.7	*4.7*	*5.3*
Average		37.6	*34.0*	*36.0*	19.2	*15.2*	*17.9*	14.1	*10.1*	*12.8*	7.1	*4.2*	*6.2*	6.7	*4.7*	*5.3*
Tenet Healthcare Corp THC US	**281** USD	**36.4**	***34.0***	***35.0***	**14.6**	***12.3***	***13.3***	**10.0**	***7.9***	***9.0***	**1.5**	***1.1***	***1.3***	**3.1**	***7.4***	***1.5***

Leverage Analysis

Company/Ticker	Last Historical Year Total Debt (Mil)	Debt/Equity % 2019	2020(E)	2021(E)	Debt/Total Cap % 2019	2020(E)	2021(E)	EBITDA/Interest Exp. 2019	2020(E)	2021(E)	Total Debt/EBITDA 2019	2020(E)	2021(E)	Assets/Equity 2019	2020(E)	2021(E)
HCA Healthcare Inc HCA USA	33,722 USD	-1,200.9	*463,100.5*	*1,584.3*	109.1	*100.0*	*94.1*	5.4	*3.9*	*5.2*	3.4	*5.2*	*3.9*	-16.0	*NM*	*23.1*
Average		-1,200.9	*463,100.5*	*1,584.3*	109.1	*100.0*	*94.1*	5.4	*3.9*	*5.2*	3.4	*5.2*	*3.9*	-16.0	—	*23.1*
Tenet Healthcare Corp THC US	**14,751** USD	**-3,976.0**	***6,581.2***	***13,560.9***	**102.6**	***98.5***	***99.3***	**2.7**	***2.2***	***2.5***	**5.5**	***6.8***	***5.5***	**-62.9**	***NM***	***NM***

Liquidity Analysis

Company/Ticker	Market Cap (Mil)	Cash per Share 2019	2020(E)	2021(E)	Current Ratio 2019	2020(E)	2021(E)	Quick Ratio 2019	2020(E)	2021(E)	Cash/Short-Term Debt 2019	2020(E)	2021(E)	Payout Ratio % 2019	2020(E)	2021(E)
HCA Healthcare Inc HCA USA	39,164 USD	1.78	*8.85*	*15.46*	1.44	*1.76*	*1.38*	1.21	*1.53*	*1.22*	4.28	*2.64*	*1.13*	31.2	*4.5*	—
Average		1.78	*8.85*	*15.46*	1.44	*1.76*	*1.38*	1.21	*1.53*	*1.22*	4.28	*2.64*	*1.13*	31.2	*4.5*	—
Tenet Healthcare Corp THC US	**2,555** USD	**2.50**	***13.58***	***15.82***	**1.21**	***1.55***	***0.96***	**1.13**	***1.47***	***0.91***	**1.53**	***12.81***	***0.59***	**-123.3**	***12.1***	***275.0***

Research Methodology for Valuing Companies

Qualitative Equity Research Overview

At the heart of our valuation system is a detailed projection of a company's future cash flows, resulting from our analysts' research. Analysts create custom industry and company assumptions to feed income statement, balance sheet, and capital investment assumptions into our globally standardized, proprietary discounted cash flow, or DCF, modeling templates. We use scenario analysis, in-depth competitive advantage analysis, and a variety of other analytical tools to augment this process. We believe this bottom-up, long-term, fundamentally based approach allows our analysts to focus on long-term business drivers, which have the greatest valuation impact, rather than short-term market noise.

Morningstar's equity research group ("we," "our") believes that a company's intrinsic worth results from the future cash flows it can generate. The Morningstar Rating for stocks identifies stocks trading at an uncertainty-adjusted discount or premium to their intrinsic worth—or fair value estimate, in Morningstar terminology. Five-star stocks sell for the biggest risk-adjusted discount to their fair values whereas 1-star stocks trade at premiums to their intrinsic worth.

Four key components drive the Morningstar rating: (1) our assessment of the firm's economic moat, (2) our estimate of the stock's fair value, (3) our uncertainty around that fair value estimate and (4) the current market price. This process ultimately culminates in our single-point star rating.

1. Economic Moat

The concept of an economic moat plays a vital role not only in our qualitative assessment of a firm's long-term investment potential, but also in the actual calculation of our fair value estimates. An economic moat is a structural feature that allows a firm to sustain excess profits over a long period of time. We define excess economic profits as returns on invested capital (or ROIC) over and above our estimate of a firm's cost of capital, or weighted average cost of capital (or WACC). Without a moat, profits are more susceptible to competition. We have identified five sources of economic moats: intangible assets, switching costs, network effect, cost advantage, and efficient scale.

Companies with a narrow moat are those we believe are more likely than not to achieve normalized excess returns for at least the next 10 years. Wide-moat companies are those in which we have very high confidence that excess returns will remain for 10 years, with excess returns more likely than not to remain for at least 20 years. The longer a firm generates economic profits, the higher its intrinsic value. We believe low-quality no-moat companies will see their normalized returns gravitate toward the firm's cost of capital more quickly than companies with moats.

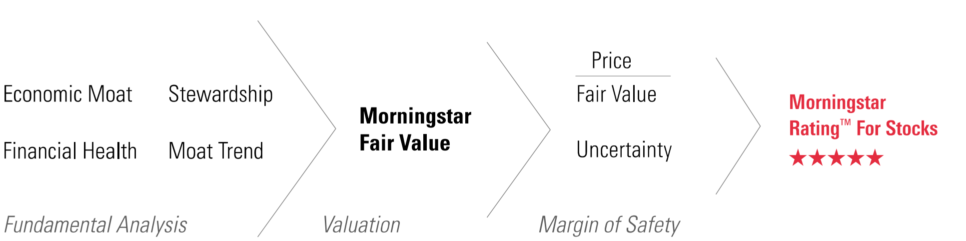
To assess the direction of the underlying competitive advantages, analysts perform ongoing assessments of the moat trend. A firm's moat trend is positive in cases where we think its sources of competitive advantage are growing stronger; stable where we don't anticipate changes to competitive advantages over the next several years; or negative when we see signs of deterioration.

All the moat and moat trend ratings undergo periodic review and any changes must be approved by the Morningstar Economic Moat Committee, comprised of senior members of Morningstar's equity research department.

2. Estimated Fair Value

Combining our analysts' financial forecasts with the firm's economic moat helps us assess how long returns on invested capital are likely to exceed the firm's cost of capital. Returns of firms with a wide economic moat rating are assumed to fade to the perpetuity period over a longer period of time than the returns of narrow-moat firms, and both will fade slower than no-moat firms, increasing our estimate of their intrinsic value.

Morningstar Research Methodology for Valuing Companies



Our model is divided into three distinct stages:

Stage I: Explicit Forecast

In this stage, which can last five to 10 years, analysts make full financial statement forecasts, including items such as revenue, profit margins, tax rates, changes in working-capital accounts, and capital spending. Based on these projections, we calculate earnings before interest, after taxes, or EBI, and the net new investment, or NNI, to derive our annual free cash flow forecast.

Stage II: Fade

The second stage of our model is the period it will take the company's return on new invested capital—the return on capital of the next dollar invested ("RONIC")—to decline (or rise) to its cost of capital. During the Stage II period, we use a formula to approximate cash flows in lieu of explicitly modeling the income statement, balance sheet, and cash flow statement as we do in Stage I. The length of the second stage depends on the strength of the company's economic moat. We forecast this period to last anywhere from one year (for companies with no economic moat) to 10–15 years or more (for wide-moat companies). During this period, cash flows are forecast using four assumptions: an average growth rate for EBI over the period, a normalized investment rate, average return on new invested capital, or RONIC, and the number of years until perpetuity, when excess returns cease. The investment rate and return on new invested capital decline until the perpetuity stage is reached. In the case of firms that do not earn their cost of capital, we assume marginal ROICs rise to the firm's cost of capital (usually attributable to less reinvestment), and we may truncate the second stage.

Stage III: Perpetuity

Once a company's marginal ROIC hits its cost of capital, we calculate a continuing value, using a standard perpetuity formula. At perpetuity, we assume that any growth or decline or investment in the business neither creates nor destroys value and that any new investment provides a return in line with estimated WACC.

Because a dollar earned today is worth more than a dollar earned tomorrow, we discount our projections of cash flows in stages I, II, and III to arrive at a total present value of expected future cash flows. Because we are modeling free cash flow to the firm—representing cash available to provide a return to all capital providers—we discount future cash flows using the WACC, which is a weighted average of the costs of equity, debt, and preferred stock (and any other funding sources), using expected future proportionate long-term market-value weights.

Research Methodology for Valuing Companies

3. Uncertainty Around That Fair Value Estimate
Morningstar's Uncertainty Rating captures a range of likely potential intrinsic values for a company and uses it to assign the margin of safety required before investing, which in turn explicitly drives our stock star rating system. The Uncertainty Rating represents the analysts' ability to bound the estimated value of the shares in a company around the fair value estimate, based on the characteristics of the business underlying the stock, including operating and financial leverage, sales sensitivity to the overall economy, product concentration, pricing power, and other company-specific factors.

Analysts consider at least two scenarios in addition to their base case: a bull case and a bear case. Assumptions are chosen such that the analyst believes there is a 25% probability that the company will perform better than the bull case, and a 25% probability that the company will perform worse than the bear case. The distance between the bull and bear cases is an important indicator of the uncertainty underlying the fair value estimate.

Our recommended margin of safety widens as our uncertainty of the estimated value of the equity increases. The more uncertain we are about the estimated value of the equity, the greater the discount we require relative to our estimate of the value of the firm before we would recommend the purchase of the shares. In addition, the uncertainty rating provides guidance in portfolio construction based on risk tolerance.

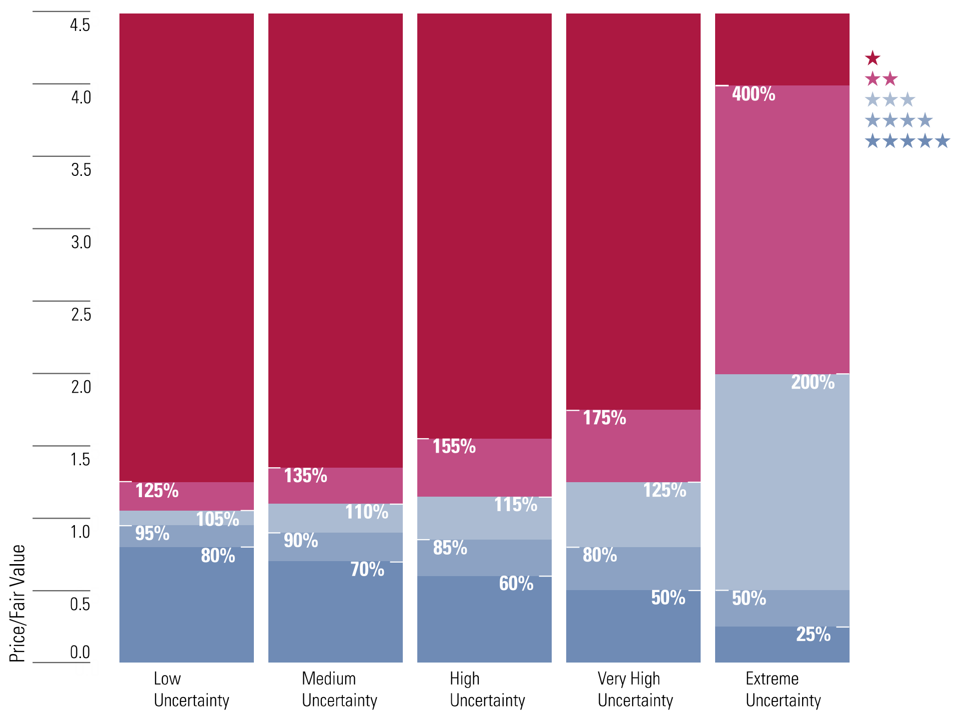
Our uncertainty ratings for our qualitative analysis are low, medium, high, very high, and extreme.

- Low–margin of safety for 5-star rating is a 20% discount and for 1-star rating is 25% premium.
- Medium–margin of safety for 5-star rating is a 30% discount and for 1-star rating is 35% premium.
- High–margin of safety for 5-star rating is a 40% discount and for 1-star rating is 55% premium.
- Very High–margin of safety for 5-star rating is a 50% discount and for 1-star rating is 75% premium.
- Extreme–margin of safety for 5-star rating is a 75% discount and for 1-star rating is 300% premium.

4. Market Price
The market prices used in this analysis and noted in the report come from exchange on which the stock is listed, which we believe is a reliable source.

For more details about our methodology, please go to https://shareholders.morningstar.com.

Morningstar Equity Research Star Rating Methodology



Morningstar Star Rating for Stocks
Once we determine the fair value estimate of a stock, we compare it with the stock's current market price on a daily basis, and the star rating is automatically re-calculated at the market close on every day the market on which the stock is listed is open.
Please note, there is no predefined distribution of stars. That is, the percentage of stocks that earn 5 stars can fluctuate daily, so the star ratings, in the aggregate, can serve as a gauge of the broader market's valuation. When there are many 5-star stocks, the stock market as a whole is more undervalued, in our opinion, than when very few companies garner our highest rating.

We expect that if our base-case assumptions are true the market price will converge on our fair value estimate over time, generally within three years (although it is impossible to predict the exact time frame in which market prices may adjust).

Our star ratings are guideposts to a broad audience and individuals must consider their own specific investment goals, risk tolerance, tax situation, time horizon, income needs, and complete investment portfolio, among other factors.

The Morningstar Star Ratings for stocks are defined below:

★★★★★ We believe appreciation beyond a fair risk-adjusted return is highly likely over a multiyear time frame. The current market price represents an excessively pessimistic outlook, limiting downside risk and maximizing upside potential.

★★★★ We believe appreciation beyond a fair risk-adjusted return is likely.

★★★ Indicates our belief that investors are likely to receive a fair risk-adjusted return (approximately cost of equity).

★★ We believe investors are likely to receive a less than fair risk-adjusted return.

★ Indicates a high probability of undesirable risk-adjusted returns from the current market price over a multiyear time frame, based on our analysis. The market is pricing in an excessively optimistic outlook, limiting upside potential and leaving the investor exposed to Capital loss.

Research Methodology for Valuing Companies

Other Definitions

Last Price: Price of the stock as of the close of the market of the last trading day before date of the report.

Stewardship Rating: Represents our assessment of management's stewardship of shareholder capital, with particular emphasis on capital allocation decisions. Analysts consider companies' investment strategy and valuation, financial leverage, dividend and share buyback policies, execution, compensation, related party transactions, and accounting practices. Corporate governance practices are only considered if they've had a demonstrated impact on shareholder value. Analysts assign one of three ratings: "Exemplary," "Standard," and "Poor." Analysts judge stewardship from an equity holder's perspective. Ratings are determined on an absolute basis. Most companies will receive a Standard rating, and this is the default rating in the absence of evidence that managers have made exceptionally strong or poor capital allocation decisions.

Quantitative Valuation: Using the below terms, intended to denote the relationship between the security's Last Price and Morningstar's quantitative fair value estimate for that security.

- Undervalued: Last Price is below Morningstar's quantitative fair value estimate.
- Fairly Valued: Last Price is in line with Morningstar's quantitative fair value estimate.
- Overvalued: Last Price is above Morningstar's quantitative fair value estimate.

Risk Warning

Please note that investments in securities are subject to market and other risks and there is no assurance or guarantee that the intended investment objectives will be achieved. Past performance of a security may or may not be sustained in future and is no indication of future performance. A security investment return and an investor's principal value will fluctuate so that, when redeemed, an investor's shares may be worth more or less than their original cost. A security's current investment performance may be lower or higher than the investment performance noted within the report. Morningstar's Uncertainty Rating serves as a useful data point with respect to sensitivity analysis of the assumptions used in our determining a fair value price.

Tenet Healthcare Corp THC (NYSE) | ★★★

Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
24.40 USD	24.00 USD	Extreme	None	Stable	Poor	Healthcare Providers & Services

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Tenet Healthcare Corp THC (NYSE) | ★★★

Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
24.40 USD	24.00 USD	Extreme	None	Stable	Poor	Healthcare Providers & Services

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Tenet Healthcare Corp THC (NYSE) | ★★★

Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
24.40 USD	24.00 USD	Extreme	None	Stable	Poor	Healthcare Providers & Services

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